

109121

REPORT BY THE

# Comptroller General

OF THE UNITED STATES

4/8/79

## Onshore Oil And Gas Leasing-- Who Wins The Lottery?

Presently, most of the 114,000 onshore oil and gas leases for over 93 million acres of Federal land are awarded under a lottery system. The Chairman, House Committee on Interior and Insular Affairs, requested that GAO review alleged irregularities in this leasing, administered by the Department of the Interior.

GAO's review of drawings in New Mexico and Wyoming detected no indication of manipulation, but showed weaknesses in controls which allow the possibility for it. Basic changes, including possible alternatives to the system, are under study by the Interior.



109121



004988

EMD-79-41  
APRIL 13, 1979



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-118678

The Honorable Morris K. Udall  
Chairman, Committee on Interior  
and Insular Affairs  
House of Representatives

Dear Mr. Chairman:

In your January 17, 1979, letter, you requested that the General Accounting Office undertake a study of the Department of the Interior's noncompetitive leasing lottery. You referred to alleged irregularities in the lottery and asked that our study include:

- an analysis of drawings held in New Mexico and Wyoming to determine the probabilities of a person, or several, winning a number of leases in each drawing, and
- any overall observations concerning the lottery system, or the way it is conducted that can be made based on our analysis.

Based on the results of our study, we found no statistical indications that the lottery was manipulated in the drawings we analyzed. But, we did find weaknesses in the lottery system which could allow possible manipulation of a drawing's outcome including:

- lack of internal controls and problems in implementing a new automated drawing system, and
- one individual responsible for a number of steps in the drawing procedure.

We also noted that over a period of years, questions have been raised as to whether a lottery is the most efficient way to lease Federal lands to ensure (1) orderly and timely development of resources and (2) the receipt of fair market value for these resources.

Various studies, including a 1970 report 1/ by our Office, have recommended either changing or eliminating the noncompetitive system. The Department unsuccessfully proposed legislation on several occasions which would do away with noncompetitive leasing, and presently the Department is again studying various alternatives to the system.

ADMINISTRATION OF OIL  
AND GAS LEASING PROGRAM

The leasing of onshore public lands for oil and gas development is authorized by the Mineral Lands Leasing Act of 1920 (30 U.S.C. 181) as amended, and the 1947 Mineral Leasing Act for Acquired Lands (30 U.S.C. 351). In accordance with the provisions of the acts, as further defined by the Department's regulations, oil and gas leases are issued either competitively or noncompetitively.

The Bureau of Land Management (BLM) is responsible for issuing all leases. The applicable leasing method used under the present statutes depends on the prospective oil and gas potential of the tract offered and whether or not it was previously leased. The leasing methods are as follows:

--Competitive. Any tract located within a "known geologic structure" (KGS) 2/ must be leased competitively and may be issued to the bidder offering the highest bonus.

The boundaries of a KGS are determined by U.S. Geological Survey geologists using available well data and other pertinent information. Leases are limited to 640 acres with a lease term of 5 years and an annual rent of not less than \$2 an acre.

---

1/"Opportunities for Benefits Through Increased Use of Competitive Bidding to Award Oil and Gas Leases on Federal Lands" (B-118678, March 17, 1970).

2/A KGS is a term used to define the boundaries of an area considered prospectively valuable for the production of oil and/or gas.

--Noncompetitive. Lands which are not within any KGS and which are subject to leasing may be leased to the first qualified applicant. Noncompetitive lease terms are for 10 years with annual rental rates of \$1.00 per acre. The maximum tract size is 2,560 acres.

For a \$10 filing fee, any U.S. citizen, group of citizens, corporation or municipality may file an application to lease. If the tract has not been previously leased or a lease expired before 1960, the first qualified applicant to file may receive the lease.

In 1960, because of problems in determining the first qualified applicant, for previously leased acreage, a simultaneous filing procedure (lottery) was instituted. Under this procedure, previously leased tracts outside a KGS on which the lease expired, or was either terminated or relinquished, are made available for re-leasing. Once a month each BLM State office posts a list of tracts available for re-leasing; applications received within 5 days after the posting are considered to have been filed simultaneously. If more than one application is received for a given tract, the lease winner is determined through a lottery drawing.

- - - -

Competitive and noncompetitive lease terms may be extended for 2 years if drilling is actually underway at the expiration date of the primary term. Also, each lease may continue after the primary term so long as oil or gas is produced or the lease is capable of producing in paying quantities. To continue a lease in a nonproductive status during the primary term, the leaseholder need only to continue the payment of the minimum annual rental.

Overall, oil and gas production from onshore Federal lands constitutes only 5 percent of the oil and 6 percent of the natural gas produced domestically. However, in recent years, considerable interest has been focused onshore as a result of discoveries in the area known as the Overthrust Belt. The Belt roughly follows the Rocky Mountains through eastern Idaho, western Montana, eastern Utah, western Colorado, and portions of New Mexico and

Arizona. In the most active regions of Utah and Wyoming, the Federal Government owns about 75 percent of the land.

Estimates vary as to the potential of this region. The Survey estimates that the Idaho and Wyoming portions of the Overthrust Belt alone contain about 1.5 billion barrels of oil and 7.3 trillion cubic feet of gas. The Rocky Mountain Oil and Gas Association estimates, considered by industry to be conservative, are even higher. The Association's estimates of potential for the whole Belt area are 18.2 billion barrels of oil and 62 trillion cubic feet of gas. If such volumes were found, the Belt would exceed Prudhoe Bay.

At the end of 1977, over 114,000 existing onshore oil and gas leases covered about 93.1 million acres. The Department does not maintain statistics on the breakdown of competitive versus noncompetitive leases except for leases Survey classifies as producible. Of the 11,340 producible leases, 7,338 are noncompetitive and 4,002 are competitive. Bonuses in fiscal year 1977 totaled \$7.8 million, and royalties totaled \$266 million. Filing fees for noncompetitive leases totaled almost \$30 million plus about \$88.2 million in annual rentals during fiscal year 1978.

NO INDICATIONS OF LOTTERY  
BEING MANIPULATED

We reviewed two lottery drawings--one in New Mexico and Wyoming--to determine the probabilities of an individual or a group winning a number of leases in a single drawing. Based on the results of this analysis, we did not find any indications that certain individuals are winning more frequently than might be expected. We found occasions where the same family groups won several leases. But this was due to the fact that the families (1) applied for most tracts being offered and (2) applied a number of times for each tract. Nothing in the BLM regulations prevents family members from applying, as long as they do not apply more than once for the same tract.

To ascertain the probabilities of certain individuals winning, we used the names of nine families provided by your staff which allegedly were "winning too often", plus one other name we found frequently included in the drawing. For our analysis, we considered all applicants with the same family name from either the same mailing address or the

same locale as a member of a family group. All applications for the April 1976 New Mexico drawing (31,994 total applications) and the May 1977 Wyoming drawing (125,574 total applications) were reviewed. The New Mexico drawing was selected because specific allegations were made about the drawing. We selected the May 1977 Wyoming drawing since it was the earliest drawing on which files were still maintained, and was held during the timeframe in which allegations were made.

The same families were found to be applying in both Wyoming and New Mexico drawings. The family groups were applying for a majority of the tracts being offered and there were from 1 to 27 applications from a family group for a given tract. The 10 families applied 7,990 times at \$10 per application on the two drawings we reviewed, representing a total investment of \$79,900. The results of our analysis are presented below:

New Mexico Drawing  
April 1976 - 75 Tracts Offered

| <u>Family</u> | <u>Number of tracts applied for</u> | <u>Total Applications</u> | <u>Number of times applied</u> | <u>Number of first place finishes</u> |
|---------------|-------------------------------------|---------------------------|--------------------------------|---------------------------------------|
| A             | 18                                  | 28,972                    | 87                             | -                                     |
| B             | 10                                  | 23,721                    | 18                             | -                                     |
| C             | 12                                  | 26,154                    | 78                             | -                                     |
| D             | 20                                  | 29,447                    | 82                             | -                                     |
| E             | 28                                  | 28,546                    | 28                             | -                                     |
| F             | 20                                  | 29,583                    | 193                            | 1                                     |
| G             | 14                                  | 28,083                    | 175                            | -                                     |
| H             | 31                                  | 31,442                    | 46                             | -                                     |
| I             | 16                                  | 22,913                    | 78                             | -                                     |
| J             | 24                                  | 29,826                    | 250                            | 2                                     |

Wyoming Drawing  
May 1977 - 215 Tracts Offered

|   |     |         |      |   |
|---|-----|---------|------|---|
| A | 144 | 120,995 | 1108 | 5 |
| B | 104 | 110,912 | 295  | - |
| C | 125 | 116,473 | 581  | 1 |
| D | 168 | 123,966 | 798  | 5 |
| E | 153 | 117,591 | 228  | - |
| F | 72  | 104,197 | 718  | 2 |
| G | 68  | 99,927  | 857  | 1 |
| H | 184 | 124,621 | 572  | 5 |
| I | 65  | 96,982  | 810  | 1 |
| J | 142 | 120,354 | 804  | 2 |

As can be seen from the above charts, one family applied 1108 times in a monthly drawing. Although this family won five tracts during the drawing, this is not outside the laws of probability. In three of the tracts won, the probability of winning was 8.25 percent, 14.9 percent and 16.8 percent respectively. In the other two cases, the probabilities of winning were 28.6 and 20.6 percent. We also computed the family's chances of winning in those cases where they, in fact, lost. In these cases, the chances of winning ranged from 2.2 to 23.8 percent.

We did similar analyses for each family which won five leases. In most cases, the winner was successful on the tracts where there were few other applicants. For example, one family applied three times per tract and won tracts where there were only 24, 25, 29, 39, and 77 applicants. A low number of applicants would seem to indicate that the public for one reason or another considers these tracts to have low potential for oil and gas discovery. If the lottery was manipulated it would probably occur on the tracts with the most interest. Our analysis does not indicate that this is occurring.

#### OBSERVATIONS ON THE NONCOMPETITIVE LEASING SYSTEM

As a result of our analysis and work previously undertaken, we noted several related issues which need to be addressed by the Department. These include (1) weaknesses in the controls of the lottery drawing, (2) management which does not encourage lease development, and (3) the need to consider changes in the noncompetitive system.

In December 1978, a departmental task force began an analysis of the onshore oil and gas leasing policy. Some of the same issues we identified are being analyzed by the task force, with the aim of recommending either changes in the Mineral Leasing Act or administrative changes. We are, therefore, providing our observations to assist your Committee in its oversight responsibilities as well as providing input to the Department's task force.

#### Weaknesses in the lottery system's controls

Although we found no indication that the outcome of the two drawings we reviewed had been manipulated, lax controls

over the system allow for the possibility of manipulation. BLM is aware of the situation and has instituted some administrative changes to correct problems, but more aggressive action is needed.

BLM's Wyoming State office is automating the lottery drawing system; the system is designed to help manage the office's tremendous workload. Applications for the drawings have increased from a monthly average of 17,500 in fiscal year 1972 to about 173,300 per month in fiscal year 1978.

Information from the drawing applications is entered into a computer which is supposed to check for improper entries--such as duplicate filings or other failures to comply with regulations. A computer program is used to randomly select the individuals to whom the lease will be offered.

We found that the system has not been fully implemented and that some of the internal controls and verification procedures are not being used. The system's key punch verification equipment had not been installed as of February 1979 and data input errors must be caught manually. As a result, numerous errors are being entered into the system before the drawing.

A program designed to verify the name, address, and identification number of previously filed entry cards has not been kept current. This process was designed to identify and eliminate improper entries, including duplicate ones. However, because this program is not operating properly and monthly updating of the data base will require considerable time, BLM officials are considering dropping it.

Because the program is not working properly, verification of entries is not being done before the drawing. Instead, BLM personnel only verify winners after the drawing to determine if they submitted duplicate applications. This is done manually, utilizing a computer printout of all applications for the drawing. The printout is not alphabetized, nor are applicants listed by tract number. It is, therefore, difficult to ensure that the winners have not submitted duplicate entries.

In addition, we found a lack of control of the computerized drawing procedures. For example, the same individual:

--corrects data input,

- runs the computer terminal,
- maintains program access code,
- verifies duplicate entries,
- retains and verifies computer documents, and
- pulls winners from computer printout without independent verification.

BLM field officials indicate they are aware of the problems of the computerized system and are currently working to correct the weaknesses in the system. Full implementation of the system is expected in June 1979. However, monthly drawings have been held since the system was initiated in August 1978 and will continue while the system is being "debugged." It is apparent that BLM needs to take immediate steps to strengthen the controls, including eliminating the practice of the same individual handling many aspects of the drawing.

Other weaknesses in the lottery system were noted by the Department's Office of Audit and Investigation in a June 1977 report. The report noted a "tendency to neglect some of the more significant (and potentially serious) problems associated with the simultaneous leasing process," and made a series of recommendations to strengthen the lottery process. One recommendation was to test the feasibility of computerizing the system--now being done in Wyoming. If the Wyoming test is successful, BLM plans to computerize the system in other states. The following were among the other recommendations:

- Requiring notarized affidavits or statements to ensure that winners are authentic individuals.
- Revising procedures for redrawing in situations where applications inadvertently were left out of a drawing.
- No longer allowing public access to the files of unsuccessful applications, but allowing the public to review the microfilm files of these applications.
- Directing State BLM Offices to alphabetize applications for drawing before microfilming.
- Requiring search of all applications when a corporation is a winner to ensure corporation officers have not also applied for the same tract.

- Requiring filing fees and advance rental payments be paid in cash or money orders.

The Department agreed with most of the recommendations and promised to implement changes; however, it did not agree that an affidavit from the winner was needed. The Department planned to make changes in the lease form and enforce 18 U.S.C. 1001, which makes it a crime to willfully make false or fictitious statements to agencies of the Federal Government. The Office of Audit "did not feel that the proposed corrective actions go far enough to reduce the potential for fraud and abuse or to enhance the credibility of the system."

The Department also agreed to alphabetize the applicants by first letter of the last name prior to microfilming. We found, however, that this was not being done and that the review of non-alphabetized applications was a very tedious and time-consuming job. This makes verification of winners an almost impossible task.

#### Federal management policies and practices permit leases to remain undeveloped

Existing management policies and practices have made it possible for lessees to hold oil and gas leases for long periods of time without exploration. Our past work identified some of these policies and practices and field officials indicated that no recent efforts were made to change them, including:

- the low cost of acquiring and holding leases without exploration,
- the assignment of leases without assurances the assignee will explore them, and
- the extending of lease terms beyond the expiration date when there has been no production.

#### Low acquisition and holding costs

The cost to acquire any noncompetitive lease, regardless of size, is only \$10 for a filing fee to cover the cost of processing the application and the first year's rental. The annual rental cost to hold these leases is established by the Secretary of the Interior and presently is set at

\$1.00 per acre each year. As a result of the low acquisition and holding costs, leases may be obtained for which there is no intention of exploration.

One of the undesirable aspects of the noncompetitive system is that speculators having no experience in the oil and gas industry acquire Federal leases for the purpose of selling them at a profit. Many owners of noncompetitive leases sell their leases within a short time at a price considerably higher than the acquisition cost. A 1978 BLM publication stated that winners in the lottery almost never engage in exploration or development activities.

#### Lease assignments permitted

Departmental regulations provide that a lease may be assigned (sold) or subleased--either in total or in part--to anyone qualified to hold a lease. BLM approvals of assignment applications are generally automatic.

Survey and industry officials told us that some oil companies rely on assignments to obtain all or fractional parts of leases or certain rights in leases they want to drill. The right to assign leased acreage in small units has encouraged brokers to acquire oil and gas leases for assignment to individuals in fractional parts at a profit. Such activities tend to impede, rather than assist in, the development of oil and gas resources since it makes it difficult for a company to assemble reasonable size drilling blocks.

#### Lease extensions permitted

Each lease issued after September 2, 1960, has a fixed primary term or expiration date unless it becomes capable of production in paying quantities or is extended under other provisions of the law. Once a lease produces, its term may be extended for as long thereafter as the lease produces, or is capable of producing in paying quantities. Extensions may also be granted to non-producing leases if the lessee meets certain conditions or performs specific activities to develop and bring the lease into production.

Lease extension practices, if not properly administered, are not consistent with the need to encourage or require diligent development of Federal oil and gas leases.

Under the present law, lease terms may be extended:

- for 2 years if actual drilling is in progress on the leases's expiration date,
- if a lease is eliminated from a "unitization" agreement,
- if a lease is eliminated from a "communitization" agreement.

Lease extensions for  
drilling in progress

The 1960 amendment to the Mineral Leasing Act provided for a single 2-year extension if actual drilling operations were in progress on the date the lease expired. Drilling on the expiration date of the lease is in some instances, according to Survey field officials, only for the purpose of extending the lease term and is not a valid attempt to develop and bring the lease into production.

In some of our past work, we accompanied Survey officials during the physical verification of extension drilling on the expiration date of 10 leases. Drill holes for seven of the leases were started on either the last or next to the last day of the lease terms.

As a condition for lease extension, regulations require drilling to geologic formation depths considered by the Survey to have oil and gas potential. Six of the 10 leases had drilled to depths of less than 12 feet at the date of lease expiration. All of these drill holes were considered by Survey as valid efforts to earn 2-year extensions since they were ultimately to be drilled to proposed depths. However, only limited Survey inspection efforts are made to follow up and determine that proposed drilling depths are reached.

Survey officials stated that procedures require monitoring of drilling through review of drilling reports to assure that the proposed depths for lease extensions are reached within a reasonable period of time. If small truck-mounted drill rigs are used, longer drilling periods are necessary because they generally do not run continuously and are only capable of shallow drilling. However, stationary rotary drills run continuously and it is possible to reach the deeper proposed depths in shorter drilling periods. At 7 of the 10 drill sites we visited, drill holes were

being started by truck-mounted drill rigs. According to a Survey field official, lengthy drilling operations by truck-mounted drill rigs, which take months and sometimes years, should not be permitted to qualify for lease extensions.

Even though proposed depths for lease extensions are required to be reached in a reasonable time period, Survey field officials we interviewed could recall only a few instances where leases had been cancelled because of insufficient drilling.

Lease extensions under unitization/  
communitization agreements

Lease terms can be extended as a result of a lease entering a unitization 1/ or communitization 2/ agreement, and if certain requirements are met.

Under an exploration unit agreement, leases committed to the unit are extended if:

- drilling is occurring on the unit at the expiration date of an individual lease (in which case the lease is extended for 2 years),
- an oil or gas discovery in paying quantities is made (in which case all leases within the producing area are extended beyond their primary term for as long as the area is capable of production),
- a lease is eliminated from the unit (in which case, lessees are entitled to a 2-year extension unless more than 2 years remain on the primary lease term).

Under such unitization practices, lessees could extend their lease terms over several years without any drilling or production.

---

1/Under a unitization agreement, all leaseholders of a potential or existing reservoir agree to operate under a unit plan as a single unit in order to allocate costs and benefits on a pre-determined basis.

2/Communitization agreements are authorized by Survey when individual leases are too small to be developed in conformity with State well spacing or well development requirements.

Communitized leases are extended for 2 years and as long thereafter as the unit produces oil and/or gas. Again in prior audit work, we noted examples of leases that had been extended for long periods of time because of a communitization agreement.

One lease we found was being extended under a communitization agreement by a producible well on another lease in the agreement. The leases's 10-year term was scheduled to expire on April 30, 1962; however, it was communitized under an agreement dated April 5, 1962. This lease was extended for 2 years because of drilling on the other one. The drilling resulted in a gas well which was producible but shut-in. At the time of our review in 1975, this lease had been held for 12 years without drilling and could continue to be held as long as the other well either produces or is shut-in but still considered to be producible.

Various studies indicate a need for changes in the noncompetitive system

Over a period of 16 years, a number of studies have addressed problems and issues concerning the noncompetitive leasing system. Each concluded that changes were needed in the system and various alternatives have been presented to accomplish this, as discussed below.

The first study--a 1963 departmental study completed only 3 years after the implementation of the lottery system --recommended increased use of competitive leasing by expanding the definition of a KGS to a known productive geologic province (a much larger area). Another recommendation was to make all lease terms for 10 years with a doubling of rental for the second 5 years of the lease.

In 1968, as part of the Public Land Law Review Commission, a study was done on energy fuel minerals. The study included a detailed analysis of oil and gas leasing and concluded that:

- Most entrants and winners in the noncompetitive lottery are speculators.
- High costs are imposed on the Government for administration of the system, and high costs are borne by the oil companies purchasing the leases.

- Some nuisance holders of lottery leases refuse to sell; therefore, exploration, production, and Government income is stymied.
- The system contributes to excessive fragmentation of holdings and makes assembly of reasonably sized drilling blocks difficult.
- The optimum lease size is much larger than allowed by either the 640 acre competitive or the 2,560 acre noncompetitive leases.

When the overall Review Commission report was issued in 1970 it recommended abolishment of both the lottery system and the KGS for competitive leasing. The report stated that:

"We have concluded that these competitive sale requirements are too narrow in scope, particularly in the case of oil and gas. It appears to the Commission that competitive leasing would be appropriate (1) in the general area of producing wells, (2) for land covered by relinquished or forfeited leases or permits, or (3) where past activity or general knowledge suggest reasonable prospects of success."

In our 1970 report 1/ we concluded that many oil and gas leases on Federal lands outside a known geologic structure of a producing oil and gas field were awarded noncompetitively at prices that appeared to have been less than fair market value. We recommended that greater use of competitive bidding should be followed to more nearly approximate fair market value.

In 1975 the Federal Trade Commission issued a report, one chapter of which focused on onshore Federal oil and gas and concluded that:

- The size limit on noncompetitive and competitive leases is too small.
- Adverse efficiency effects occur from non-companies which win leases under the simultaneous filing systems.

---

1/"Opportunities for Benefits Through Increased Use of Competitive Bidding to Award Oil and Gas Leases on Federal Lands" (B-118678, March 17, 1970).

--Leases issued under the simultaneous system have probably not obtained fair market value.

And finally, the Department's ongoing task force is making a detailed study of many of the problems identified in the earlier studies. They are also attempting to analyze other issues concerning the way in which onshore leasing is conducted. The results of this study will be presented to the Secretary of the Interior for consideration of policy or legislative changes. We plan to follow the results of the task force's effort as part of our normal monitoring of the Department's activities.

#### CONCLUSIONS AND RECOMMENDATIONS

Various studies have concluded that onshore oil and gas leasing is not being implemented in the most efficient way to ensure orderly and timely development of onshore resources. Various alternative improvements have been discussed and presently are being considered. It appears that some legislative or administrative initiative may be recommended by the Department in the near future.

However, until such time as any changes are made, the Department should ensure that the present lottery system is conducted in a manner which eliminates the possibility of the lottery drawings being manipulated. In the drawings we reviewed, it did not appear that they were being manipulated. However, because of weaknesses in the system, it is possible for this to occur, and the Department should take steps to tighten the controls.

In addition, we believe the Department should not allow lessees to hold oil and gas leases for a long period of time without production and with no intention of exploring or producing.

We recommend that the Secretary of the Interior:

- Require tighter controls on the lottery drawing, by ensuring that the same individual does not handle a number of aspects of the drawings, and by requiring that independent verification of the winners is made.
- Require alphabetizing of lottery entries to facilitate verification of winners and future audits of the drawings results.

- Consider increasing application fees, and rental rates to discourage speculation.
- Require, as a condition to obtaining a lease, an obligation to begin exploratory drilling within a specific timeframe.

AGENCY COMMENTS

As agreed with your staff, we obtained agency comments on this report. The Department generally agreed with our findings, and its written comments are attached as appendix I.

- - - -

As arranged with your office, we are also sending copies of this report to the Secretary of the Interior; the Secretary of Energy; appropriate House and Senate energy committees; and to the Director, Office of Management and Budget. Copies will also be sent to other interested parties who request them.

Sincerely yours



Comptroller General  
of the United States



# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

MAR 28 1979

Mr. J. Dexter Peach  
Director, Energy and Minerals Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Peach:

Mr. Tim Taylor and Mr. Lowell Mininger of your staff and Craig Hall, Dale Zimmerman, Chris Oynes, and Doris Koivula of the Department of the Interior, met last week to discuss the draft report to the Chairman, House Interior and Insular Affairs Committee dealing with onshore oil and gas leasing procedures.

Our comments on recommendations of the draft report follow:

We are exerting tighter controls on the computerized drawing process by installing keypunch verification equipment. The equipment is on order and we expect it to be delivered in April 1979.

We shall direct that different individuals perform the separable sensitive aspects of the drawing procedure and also that there will be oversight of these sensitive operations. We shall also insure an independent verification of the drawing results.

We believe the benefits to be derived from alphabetizing the drawing cards outweigh the additional cost and manpower required for accomplishment. We intend to make this procedure mandatory by an instruction memorandum directing all State offices to alphabetize all drawing entry cards by first letter of the last name of the offeror.

While the recommendations (June 1977) of the Department's Office of Audit and Investigation have not been adopted in regulation form, some have been covered through Washington Office instruction memoranda.

On August 28, 1978, Instruction Memorandum 78-468 was issued directing that SOG redrawings be held using blank cards for those included in the original drawing and that the results of the original drawing would stand unless a previously omitted card is selected upon redrawing. This memorandum incorporated the recommendations of the June 1977 audit and formalized instructions which were given to field offices informally prior to that time. The IBLA\* in Milton D. Feinberg, 37 IBLA 39, struck

\*/Interior Board of Land Appeals.

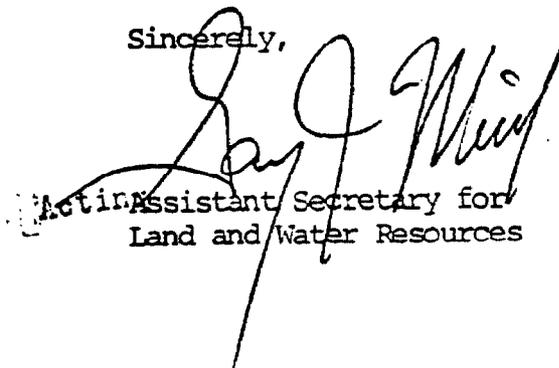
down this procedure, holding that it was arbitrary and capricious and that it violated Departmental policy. The IBLA has agreed to reconsider this decision some time this month. As a backup measure, a regulation setting forth the new procedure is now moving towards publication in the Federal Register.

Memoranda concerning public review of unsuccessful drawing cards and the alphabetizing of these cards have been prepared but have not yet gone out. No memorandum reemphasizing that filing by both a corporation and its officers constitutes a multiple filing has gone out. The necessary form change to require the lessee's signature on the lease form is being pursued. A complete reworking of SOG regulations has been in progress for some time and it has been delayed only by the number of issues involved and the complexity of those issues. The recommendation to study the feasibility of automating the system beyond Wyoming is in progress.

We may consider a proposal to require an exploration plan and/or a production plan to be included in the lease terms. If this proposal were adopted, it would not be necessary to include it as a condition of assignment inasmuch as by virtue of the assignment the assignee adopts and is bound by all the terms and condition of the lease. However, at this point, it is not clear whether these conditions would require legislative change.

Changes in the simultaneous system are desirable. BLM is presently accommodating most of the recommendations in the draft report which can be accomplished by Bureau directive. They will be implemented within the next 30 days. Consideration will be given to the other recommendations during the current review of oil and gas leasing policy being conducted by the Departmental Task Force. Regulatory changes in our procedures will be considered when the Secretary has an opportunity to consider the Task Force recommendations, which will occur by May 1, 1979.

Sincerely,



Acting Assistant Secretary for  
Land and Water Resources

(008870)

Single copies of GAO reports are available free of charge. Requests (except by Members of Congress) for additional quantities should be accompanied by payment of \$1.00 per copy.

Requests for single copies (without charge) should be sent to:

U.S. General Accounting Office  
Distribution Section, Room 1518  
441 G Street, NW.  
Washington, DC 20548

Requests for multiple copies should be sent with checks or money orders to:

U.S. General Accounting Office  
Distribution Section  
P.O. Box 1020  
Washington, DC 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. NOTE: Stamps or Superintendent of Documents coupons will not be accepted.

**PLEASE DO NOT SEND CASH**

To expedite filling your order, use the report number and date in the lower right corner of the front cover.

GAO reports are now available on microfiche. If such copies will meet your needs, be sure to specify that you want microfiche copies.

**AN EQUAL OPPORTUNITY EMPLOYER**

**UNITED STATES  
GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS  
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID  
U. S. GENERAL ACCOUNTING OFFICE**



**THIRD CLASS**